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SUBJECT: LVIV BANKS ON ECONOMIC DIVERSITY, POLITICAL UNITY,
AND EURO 2012 OPTIMISM

REF: KYIV 337

Summary

¶1. (SBU) While Lviv Oblast has felt some negative effects from the economic crisis, its diversified economy has protected it against large-scale layoffs and related social problems. Lviv leaders say they feel the effects of the ongoing political battle in Kyiv, but that they have put aside politics to work together. Preparations for the Euro 2012 soccer tournament are a key component to Lviv's near-term economic development plans and provide an impetus for political cooperation. The GOU has not yet provided budget support to Lviv for its Euro 2012 preparations, but Lviv officials are optimistic about their chances for hosting the tournament. End Summary.

Lviv Feels Economic Crisis, but Situation Not Dire

¶2. (SBU) During the Ambassador's March 19-20 visit to Lviv, Oblast Governor Mykola Kmit told him that, while Lviv is feeling the effects of the economic downturn, its economic diversity is helping to cushion the blow. He said that because Lviv wasn't dependent on heavy industry, and small and medium enterprises account for more than 80 percent of the oblast's output, Lviv had more flexibility to respond to the crisis. He added that the oblast had not been hit with large-scale layoffs that threaten other, more industrialized regions of Ukraine.

¶3. (SBU) Lviv Mayor Andriy Sadoviy told the Ambassador that the city budget, while stretched, had not been broken yet, and the city was current on all its liabilities, including salaries to city employees. He said, however, that the city would be unable to rely on traditional sources of revenue in 2009, such as land sales, to patch holes in the budget, because the market has bottomed out. In a meeting with the Ambassador, Peace Corps Volunteers serving in smaller towns in Lviv Oblast reported wage arrears for teachers, police, and other government employees, but said that any economic adversity in their towns was being met more by political apathy than a call to action against the government.

¶4. (SBU) Governor Kmit said that the global economic downturn had derailed or delayed negotiations on some large-scale foreign investment in Lviv, but he was confident that it was only temporary. Sadoviy, meanwhile, said that Lviv was looking inward for near-term investment, and did not anticipate any significant foreign direct investment in Lviv in the current economic environment.

Lviv an "example of political unity"

¶5. (SBU) Governor Kmit told the Ambassador that Lviv's local political unity could be seen as a roadmap for Kyiv, and

other oblasts, to follow. (Note: The Oblast council president and Mayor are from President Yushchenko's Our Ukraine (OU), and Governor Kmit is appointed by Yushchenko.) Oblast council deputy president Lyudmila Kozak, a member of PM Tymoshenko's BYuT, echoed Kmit, saying that BYuT worked well with OU in Lviv. She said that, while local politicians feel the echo of political turbulence from Kyiv, BYuT works closely with OU on the oblast council, and they have largely avoided political fights by ensuring that "the economic and social needs of Lviv are put first."

¶16. (SBU) Kmit noted that in late 2008 the governor, mayor and oblast council worked closely together to raise communal heating prices, a politically difficult task. By working across party lines, they were able to ensure that rising gas prices did not negatively affect oblast heating companies' viability.

"Optimistic" That Euro 2012 Preparations on Track

¶17. (SBU) Both Mayor Sadoviy and Governor Kmit expressed confidence that Lviv would succeed in its Euro 2012 preparations, and Kmit said that "despite our budget problems," Lviv is on schedule. Sadoviy lamented that Lviv had as yet received no budget support from Kyiv for Euro 2012 preparations, but said that he "remained optimistic" that the promised assistance would be delivered. In the meantime, Sadoviy said, stadium construction has been started by AzovInteks, a construction company owned by Oligarch Sergey Taruta. As Taruta is close with PM Tymoshenko, said Sadoviy, "maybe he can convince her to provide some funding."

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¶18. (SBU) Lviv's 2009 city budget includes UAH one billion for stadium, airport, and other Euro 2012-related infrastructure projects, according to Sadoviy. In addition, Pavlo Diminsky, owner of the local Karpat football club, recently signed a joint agreement with the Mayor and Governor for Karpat to provide UAH 600 million for stadium construction support. Finally, the Lviv city council on Friday, March 20, passed a resolution authorizing the issuance of up to UAH 300 million in "city bonds" to provide further funding for required Euro 2012 projects.

¶19. (SBU) Mayor Sadoviy stressed that Lviv must be a Euro 2012 host to "represent Ukraine," as all the other host cities were Russian-speaking. Volodymyr Kvurt, Lviv Municipal Council Secretary, perhaps put it best when he said that Lviv will be ready to host Euro 2012 "on the eve of the event...we hope."

Local Government Reform -- Beating a Familiar Drum

¶10. (SBU) Administrative and local government reform remains a familiar refrain in the regions. Sadoviy lamented that Kyiv takes all the money and authority it can from the regions, and called Lviv's budget relationship with Kyiv "the worst in a century." Municipal Secretary Kvurt said that there remained a "huge chasm" between local and national governments in Ukraine. He said that local governments had to deal with local problems, but lacked the authority and budgetary discretion to do so effectively.

TAYLOR